

MEMORANDUM

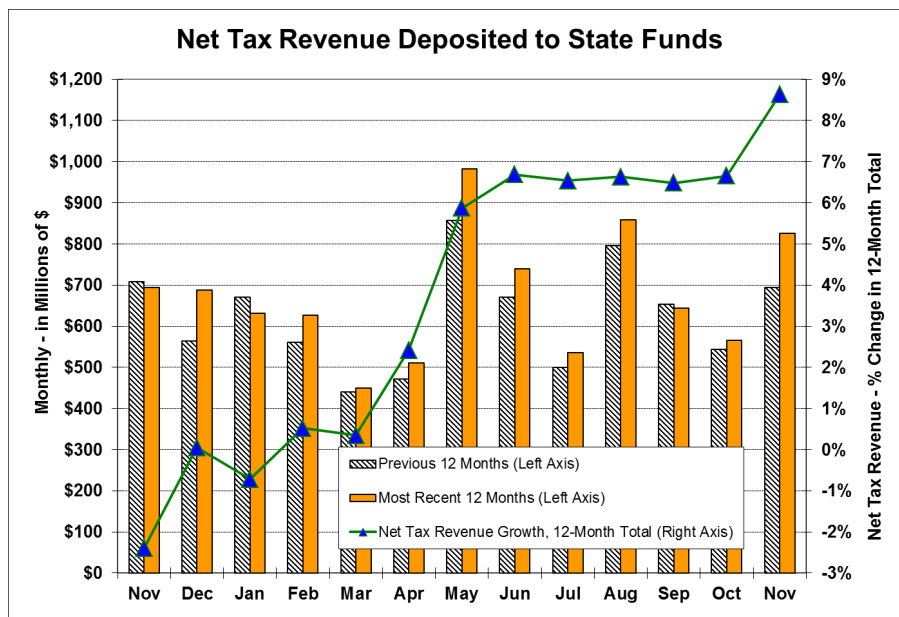
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson

DATE: December 24, 2015

Twelve-Month Total Net Tax Receipts Through November 30, 2015

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending November 2015 with comparisons to the previous 12 months. November 2014 to November 2015 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



Overview of Current Situation

State of Iowa total tax revenue increased significantly in November, although a portion of the large increase was due to deposit timing difference related to how the Thanksgiving holiday fell on the calendar in 2014 and 2015. This tax processing difference and a fuel tax increase effective March 1, 2015, both contributed to the large (8.6%) increase in annual Iowa tax revenue. The processing issue will negatively impact December comparisons and the fuel tax increase will contribute positively to comparisons through March 2016.

Month of November 2015

November net tax receipts totaled \$826.4 million, an increase of \$131.9 million (19.0%) compared to November 2014. Fuel tax posted a large gain due to higher per-gallon tax rates, while individual income and sales/use tax posted gains due to due date and deposit date differences between 2014 and 2015. Corporate income tax posted the only significant decline for the month, dropping \$18.5 million when compared to last November.

Year-Over-Year Comparison – Net Tax Revenue

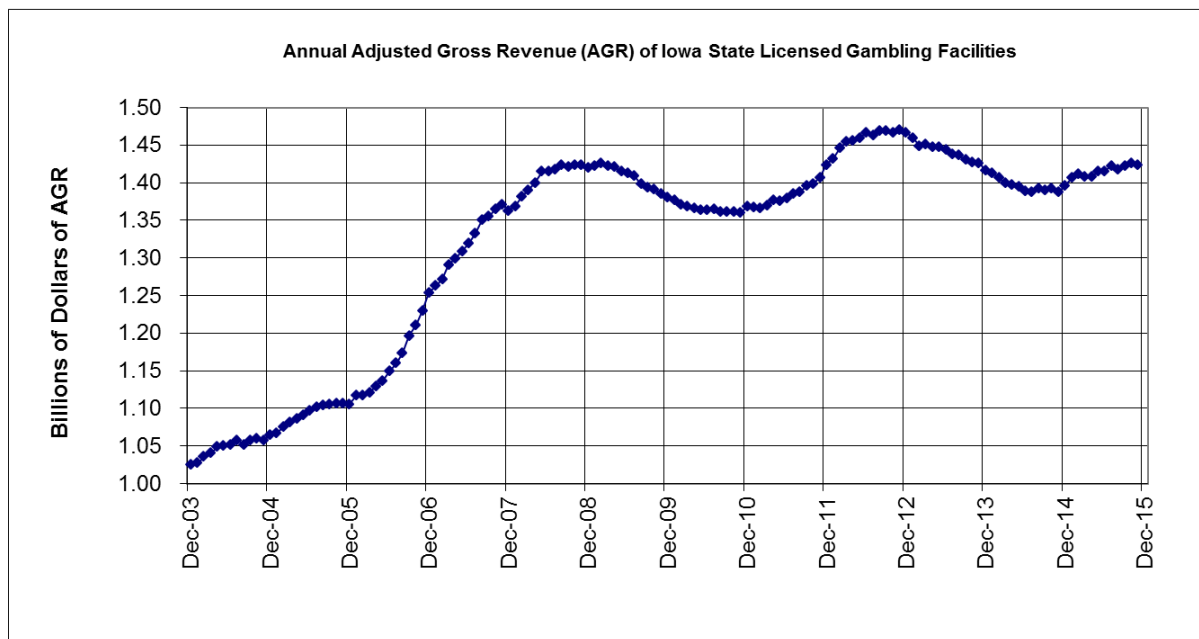
During the 12-month period ending November 2015, net revenue from all taxes deposited to State funds totaled \$8.061 billion, an increase of \$640.2 million (8.6%), compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$286.1 million, 8.8%) – A portion of the 8.8% individual income tax gain for the year is due to how the Thanksgiving holiday impacted tax deposits at the end of November. With adjustment, the year-over-year growth is a strong 7.7%.
- Corporate Income Tax (positive \$8.5 million, 2.0%) – While still showing positive growth over the most recent 12 months, corporate income tax net deposits declined significantly over the past two months as gross corporate tax receipts have declined while corporate tax refunds have posted large increases.
- Sales/Use Tax (positive \$131.8 million, 5.2%) – Gross tax receipts from the sale of vehicles (deposited to the Road Use Tax Fund) increased 7.4% over the last 12 months and sales/use tax deposited to the State General Fund increased 5.2%. Over those same 12 months, refunds of General Fund sales/use tax payments increased \$30.5 million.
- Bank Franchise Tax (positive \$13.9 million, 47.1%) – After a significant decline that began in March 2014, the annual growth in bank tax net revenue turned positive in April 2015. Over the most recent 12 months, tax deposits have increased while tax refunds have decreased modestly.
- Fuel Tax (positive \$160.3 million, 36.1%) – According to Department of Revenue monthly fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold increased 0.8% and taxable diesel sales decreased 0.8%. The combination of gasoline and diesel taxable fuel gallons increased 0.2% over the period. Due in large part to the Iowa gas tax increase (effective March 1, 2015), fuel tax net deposits increased \$148.6 million (49.8%) over the past eight months.
- Gambling Tax (positive \$13.4 million, 4.7%) – According to Racing and Gaming Commission statistics, seven Iowa casino/track locations recorded negative annual adjusted gross revenue (AGR) growth for the 12 months ending November 2015. A new casino opened near Jefferson in July 2015. The combined AGR change for the 19 facilities was positive 2.6% over the previous 12 months. Across all facilities, the AGR for the 12 months totaled \$1.424 billion, an amount that is 3.1% below the annual AGR peak (December 2012).
- Real Estate Transfer Tax (positive \$3.7 million, 21.3%) – At \$21.1 million, annual real estate transfer tax revenue has exceeded the previous annual peak (April 2015, \$20.6 million) and is \$8.3 million above the recession low (\$12.8 million, May, 2010).
- Cigarette and Tobacco Tax (positive \$12.7 million, 5.8%).

Tax Spotlight – Gambling Tax

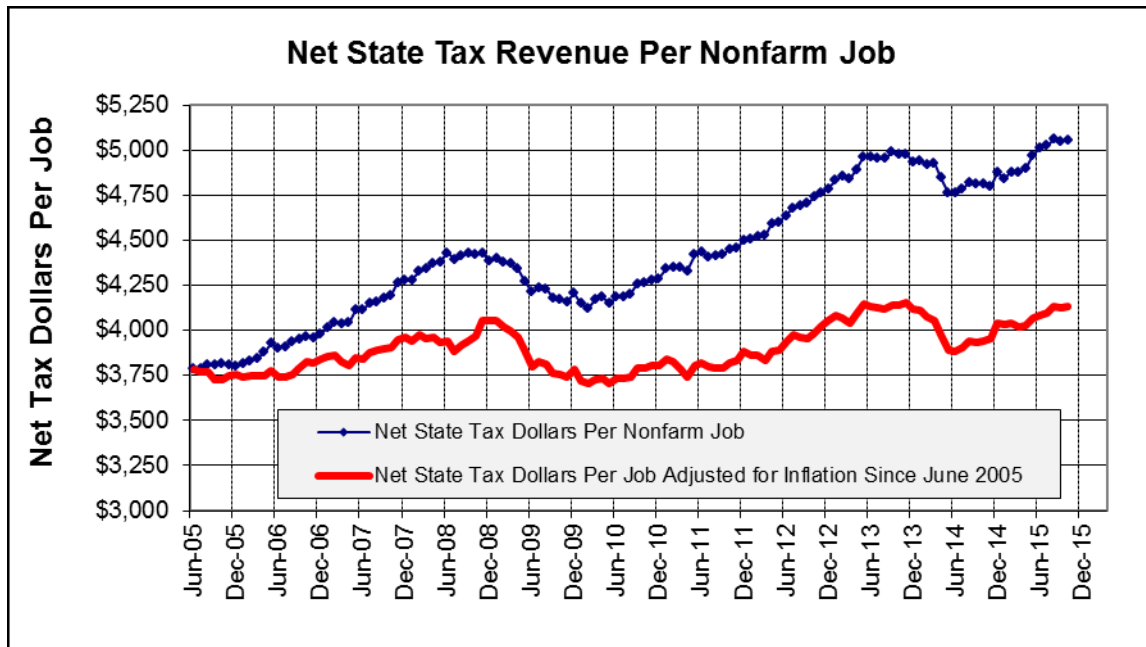
Pari-mutuel wagering and gambling (excursion boats, gambling structures, and racetracks) are taxed under the authority of Iowa Code chapters 99D and 99F. Taxes applied to pari-mutuel wagering and gambling are as follows:

- The pari-mutuel tax on horse racing is 6.0% of the gross sum wagered. However, if the gross sum wagered is less than \$90.0 million then the net tax is 0.0%. If the gross sum wagered is \$90.0 million or above, the net tax is 1.0% due to a tax credit based on the gross sum wagered. There is currently one establishment in Iowa that has horse racing.
- The pari-mutuel tax on dog racing is 4.0% of the gross sum wagered of \$30.0 million or less, 5.0% between \$30.0 million and \$55.0 million, and 6.0% on \$55.0 million or more. There are currently two establishments in Iowa that offer dog racing.
- The pari-mutuel tax on simulcast races is 2.0% of the gross sum wagered. There are currently three establishments in Iowa that offer wagering on simulcast races.
- On casino games, the State wagering tax is 5.0% of the first \$1.0 million of adjusted gross gambling receipts, 10.0% of the next \$2.0 million, and 22.0% of adjusted gross receipts over \$3.0 million. If the entity offering gambling is a racetrack, then the maximum rate can increase to 24.0% if the amount of adjusted gambling receipts is \$100.0 million or more. In addition to the three racetracks that offer gambling, there are 16 other casinos in Iowa with gaming subject to the State wagering tax in Iowa.



Tax Revenue and Employment

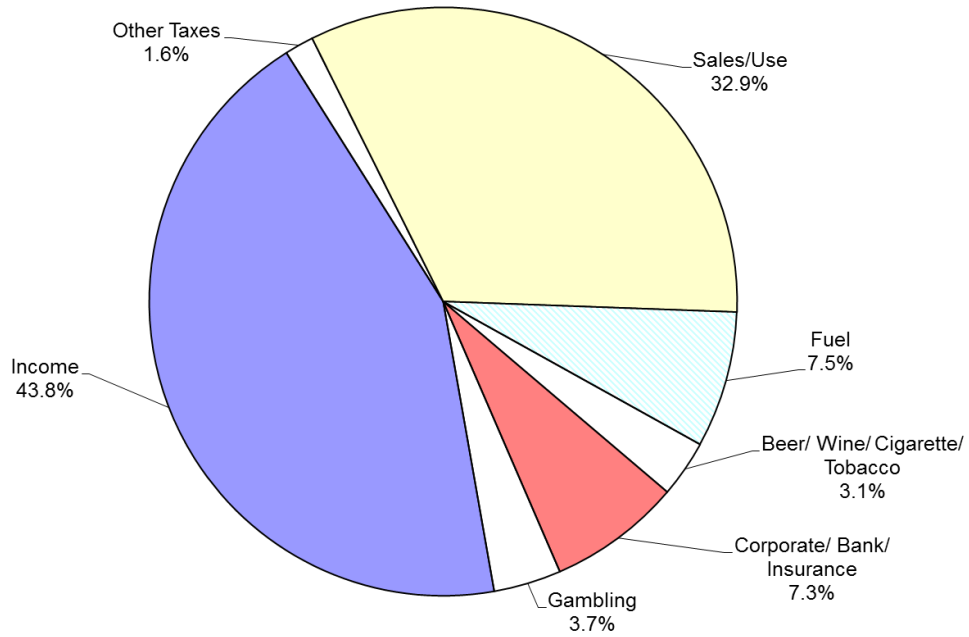
The average reading for Iowa nonfarm employment over the 12 months ending October 2015 is 1,568,200 and net State tax receipts over the same 12 months totaled \$7.929 billion, or \$5,056 per nonfarm job. This is \$1,271 higher than the per job average for the 12 months ending June 2005. The blue line on the following chart depicts the annual tax revenue collected by the State per job, calculated monthly. The red line subtracts the impact of inflation since June 2005 from the blue line. The red line indicates that inflation-adjusted tax revenue per job has increased \$350 since June 2005, and the remainder of the \$1,271 increase (\$921) represents the impact of inflation.



Net State Tax Revenue - Twelve Months Ending November 2015

Net Revenue = \$8.061 Billion

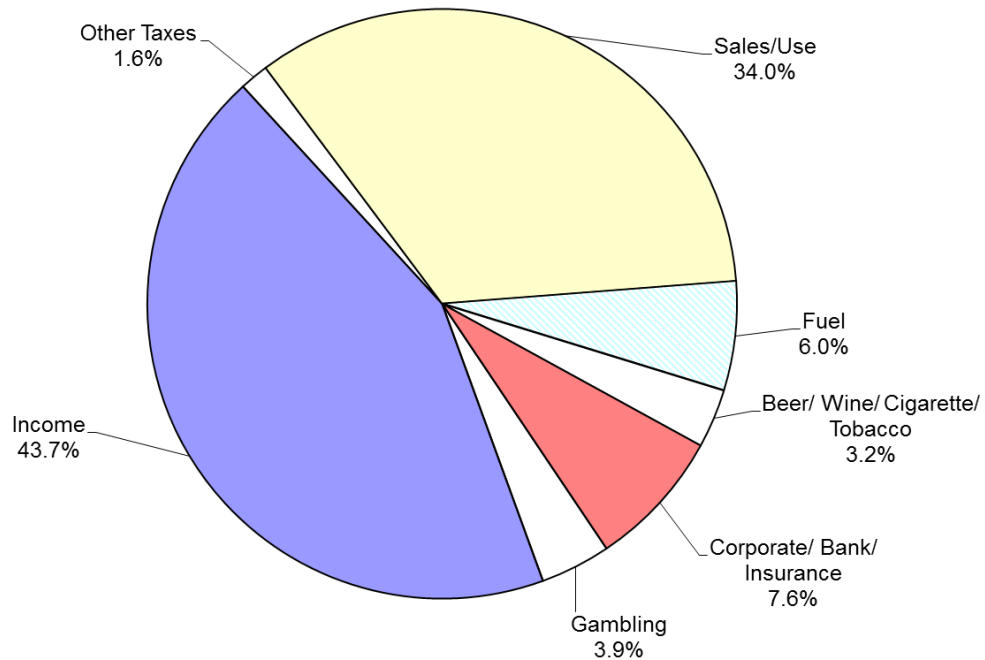
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending November 2014

Net Revenue = \$7.421 Billion

Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - columns and rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of November 2014	Month of November 2015	November \$ Change	November % Change
Banking	\$ 29.5	\$ 43.4	\$ 13.9	47.1%	\$ - 9.1	\$ - 4.9	\$ 4.2	--
Beer & Wine	21.9	22.4	0.5	2.3%	2.0	2.1	0.1	5.0%
Cigarette & Tobacco	217.9	230.6	12.7	5.8%	15.1	16.8	1.7	11.3%
Corporate Income	426.3	434.8	8.5	2.0%	14.4	- 4.1	- 18.5	-128.5%
Fuel	443.9	604.2	160.3	36.1%	31.4	68.4	37.0	117.8%
Gambling	286.3	299.7	13.4	4.7%	19.5	21.8	2.3	11.8%
Individual Income	3,246.6	3,532.7	286.1	8.8%	324.5	359.4	34.9	10.8%
Inheritance	88.6	90.0	1.4	1.6%	7.2	9.6	2.4	33.3%
Insurance	108.4	110.1	1.7	1.6%	0.4	0.1	- 0.3	-75.0%
Other Taxes	11.5	17.7	6.2	53.9%	2.0	3.0	1.0	50.0%
Real Estate Transfer	17.4	21.1	3.7	21.3%	0.3	1.6	1.3	433.3%
Sales/Use	2,522.8	2,654.6	131.8	5.2%	286.8	352.6	65.8	22.9%
Total Net Taxes	\$ 7,421.1	\$ 8,061.3	\$ 640.2	8.6%	\$ 694.5	\$ 826.4	\$ 131.9	19.0%
Gross Tax & Refunds								
Gross Tax	\$ 8,869.8	\$ 9,547.2	\$ 677.4	7.6%	\$ 762.5	\$ 915.7	\$ 153.2	20.1%
Tax Refunds	\$ - 1,448.8	\$ - 1,485.9	\$ - 37.1	2.6%	\$ - 67.8	\$ - 89.2	\$ - 21.4	31.6%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 6,095.0	\$ 6,520.1	\$ 425.1	7.0%	\$ 588.8	\$ 677.2	\$ 88.4	15.0%
Road Use Tax Fund	\$ 790.5	\$ 976.8	\$ 186.3	23.6%	\$ 62.3	\$ 100.0	\$ 37.7	60.5%
Non-GF Gambling	\$ 284.6	\$ 298.0	\$ 13.4	4.7%	\$ 19.4	\$ 21.7	\$ 2.3	11.9%
Other State Funds	\$ 250.8	\$ 266.4	\$ 15.6	6.2%	\$ 24.1	\$ 27.6	\$ 3.5	14.5%
Local Option Taxes *	\$ 917.6	\$ 966.5	\$ 48.9	5.3%	\$ 88.7	\$ 88.8	\$ 0.1	0.1%

* Sales, income surtax, hotel/motel, and flood mitigation. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

A percentage change displayed as "--" represents instances where the base year net revenue amount was zero or negative so no meaningful percentage change can be calculated.

Tax Categories Used in Table

Franchise (Bank) Tax: The franchise tax paid by banks is deposited in the State General Fund. Credit unions are taxed under a different system than banks, but the credit union tax is included in this line also. Of the total deposited, the bank tax provides approximately 98.0% of the revenue and the credit union tax 2.0%.

Beer & Liquor Tax: Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in an Iowa Economic Development Authority Fund for wine promotion.

Cigarette & Tobacco Tax: Prior to July 1, 2011, all cigarette and tobacco product tax revenue was deposited in the State General Fund. Since FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes has been deposited in the Health Care Trust Fund and the remainder is deposited in the State General Fund. Beginning in FY 2014, all cigarette and tobacco tax revenue is deposited in the Health Care Trust Fund.

Corporate Income Tax: All corporate income tax is deposited in the State General Fund.

Motor Vehicle Fuel Tax: All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: Gambling tax is deposited in several State funds. Beginning with FY 2014, the State no longer deposits gambling tax revenue to the State General Fund. Funds receiving deposits of gambling tax revenue over the last 24 months include the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bond Debt and Subsidy Holdback Funds, and the Iowa Skilled Worker and Job Creation Fund.

Individual Income Tax: Most individual income tax revenue is deposited in the State General Fund. A total of \$6.0 million per year (\$5.75 million in FY 2015) is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

Inheritance Tax: All inheritance tax is deposited in the State General Fund.

Insurance Premium Tax: All insurance premium tax is deposited in the State General Fund.

Other Taxes: Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

Real Estate Transfer Tax: Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The distribution of the State portion of real estate transfer tax revenue is currently changing each fiscal year, with the State General Fund portion reduced to 65.0% for FY 2015. The portion not deposited to the State General Fund is deposited to the Housing Trust Fund and the Shelter Assistance Fund.

Sales/Use Tax: General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a Statewide 1.0% sales/use tax and the revenue from that Statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation. Beginning FY 2014, a portion of State sales/use tax revenue is deposited in a new Sales Tax Increment Fund and used for local flood mitigation projects.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning in FY 2009, the SILO tax was converted to a 1.0% Statewide tax and the SILO tax was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% Statewide tax are included in the local option tax amount. Flood mitigation sales tax increment transfers to local governments were added beginning July, 2014.

Report Database: The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.